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OPEN MEETING

ORIGINAL

## MEMORANDUM

TO: THE COMMISSION

Arizona Corporation Commission

DOCKETED

RECEIVED  
AZ CORP COMMISSION  
DOCKET CONTROL

FROM: Utilities Division

OCT 03 2014

2014 OCT 3 PM 3 11

DATE: October 3, 2014

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF HOLIDAY ENTERPRISES, INC.  
DBA HOLIDAY WATER COMPANY FOR AUTHORITY TO IMPLEMENT A  
WATER INFRASTRUCTURE FINANCING AUTHORITY SURCHARGE  
DOCKET NO W-01896A-13-0238 (RATES) AND W-01896A-13-0239 (FINANCING)

**I. Introduction and Background**

On January 7, 2014, Decision No. 74261 ordered a permanent rate increase and approval for a Water Infrastructure Financing Authority ("WIFA") surcharge for Holiday Enterprises, Inc. dba Holiday Water Company ("Holiday" or "Company"). The Company was further ordered that upon filing of the loan closing notice, the Company file an application requesting to implement the associated surcharge. The Company filed these documents on September 9, 2014.

Decision No. 74261 also ordered that Staff calculate the appropriate WIFA surcharge and prepare and file a Recommended Opinion and Order for Commission consideration based on the actual loan debt service (interest and principal payments), WIFA reserve, and incremental income and property taxes using the current customer count at the time of the loan closing.

**II. Staff's Recommended Surcharge and Schedules**

In Decision No. 74261, Staff calculated the WIFA surcharge based on a loan repayment amount of \$225,000. Staff calculated \$11.43 for a 5/8 x 3/4-inch meter equivalent monthly surcharge. The loan closing documents show that \$100,000 of the loan amount is to be forgiven, i.e., the loan amount is \$125,000 instead of \$225,000. The reduced surcharge calculation and schedules are contained in this recommendation. Staff calculates that a 5/8 x 3/4-inch meter equivalent surcharge of \$6.45 per month will produce the additional revenue needed for the debt service on the \$125,000 WIFA loan as shown on Surcharge Schedule MJR-4. A typical bill analysis is shown on Surcharge Schedule MJR-5.

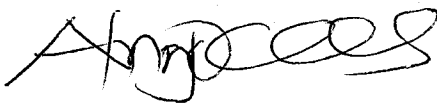
Staff's recommended surcharge is calculated using the following Schedules:

Calculation of WIFA Surcharge .....	Surcharge Schedule MJR-1
WIFA loan analysis .....	Surcharge Schedule MJR-2
Terms of the WIFA loan.....	Surcharge Schedule MJR-3
Cash Flow Analysis .....	Surcharge Schedule MJR-4

Typical Bill Analysis (with Surcharge) ..... Surcharge Schedule MJR-5

### III. Recommendations

- Approval of the Water Infrastructure Financing Authority Surcharge ("WIFA") as per Surcharge Schedule MJR-1.
- Approval of the surcharge effective for bills rendered on and after November 1, 2014.
- Directing the Company as a compliance item in this docket to notify customers of the implementation of the surcharge in the next regularly scheduled billing.

for   
Steven M. Olea  
Director  
Utilities Division

SMO:MJR:sms\BES

ORIGINATOR: Mary J. Rimback

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION )  
OF HOLIDAY ENTERPRISES, INC. DBA )  
HOLIDAY WATER COMPANY FOR )  
AUTHORITY TO IMPLEMENT A WATER )  
INFRASTRUCTURE FINANCING )  
AUTHORITY SURCHARGE )

DOCKET NOS. W-01896A-13-0238  
W-01896A-13-0239

DECISION NO. \_\_\_\_\_

ORDER

Open Meeting  
October 16, 2014  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. On July 3, 2013, Holiday Enterprises, Inc. dba Holiday Water Company ("Holiday" or "Company") filed an application with the Commission for a permanent rate increase under Docket No. W-01896A-13-0238 ("Rate Application"). Also on July 3, 2013, the Company filed an application for authority to incur long-term debt under Docket No. W-01896A-13-0239 ("Finance Application").

2. On January 7, 2014, the Commission issued Decision No. 74261 granting Holiday a permanent rate increase and authorization to incur a loan not to exceed \$225,000 pursuant to a loan agreement with WIFA. The Company was further ordered that upon filing of the loan closing notice, the Company file an application requesting to implement the associated WIFA loan surcharge.

...



ORDER

IT IS ORDERED that the WIFA surcharge for Holiday Enterprises, Inc. DBA Holiday Water Company shall be in accordance with the surcharge rates as shown in Exhibit A, Surcharge Schedule MJR-4.

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1 IT IS FURTHER ORDERED that Holiday Enterprises, Inc. DBA Holiday Water  
2 Company, as a compliance item in this docket, shall notify its customers of the implementation of  
3 the surcharge in the next regularly scheduled billing.

4 IT IS FURTHER ORDERED that the Holiday Enterprises, Inc. DBA Holiday Water  
5 Company shall file a tariff consistent with this decision within 15 days of the effective date of this  
6 decision.

7 IT IS FURTHER ORDERED that the surcharge is effective on and after November 1,  
8 2014.

9 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

10  
11  
12 CHAIRMAN

COMMISSIONER

13  
14 COMMISSIONER

COMMISSIONER

COMMISSIONER

15  
16 IN WITNESS WHEREOF, I, JODI JERICH,  
17 Executive Director of the Arizona Corporation  
18 Commission, have hereunto set my hand and caused  
19 the official seal of the Commission to be affixed at  
20 the Capitol, in the City of Phoenix, this \_\_\_\_\_ day  
21 of \_\_\_\_\_, 2014.

22 \_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

23 DISSENT: \_\_\_\_\_

24 DISSENT: \_\_\_\_\_

25 SMO:MJR:sms\BES  
26  
27  
28

1 SERVICE LIST FOR: HOLIDAY ENTERPRISES, INC. DBA HOLIDAY WATER  
2 COMPANY  
3 DOCKET NOS.: W-01896A-13-0238 AND W-01896A-13-0239

4 Carol Cowan, President  
5 Holiday Water Company  
6 P.O. Box 1251  
7 Tombstone, AZ 85638

8 Mr. Steven M. Olea  
9 Director, Utilities Division  
10 Arizona Corporation Commission  
11 1200 West Washington Street  
12 Phoenix, Arizona 85007

13 Ms. Janice M. Alward  
14 Chief, Legal Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18 Ms. Lyn Farmer  
19 Chief, Hearing Division  
20 Arizona Corporation Commission  
21 1200 West Washington Street  
22 Phoenix, Arizona 85007  
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# EXHIBIT A



Holiday Enterprises, Inc. dba Holiday Water Company  
Docket Nos W-01896A-13-0238 & W-01896A-13-0239  
Surcharge Implementation

Surcharge Schedule MJR-1

### WHA LOAN FINANCIAL ANALYSIS

Test Year Income Statement, Capital Structure and Pro Forma Based on Audit  
Including Immediate Effects of the Proposed Debt

#### INCOME STATEMENT

		Pro Forma Permanent Rates	Incremental Taxes	Pro Forma With Surcharge
Operating Revenue:	g	\$67,726		\$67,726
Operating Expenses:				
Purchased Water/Pumping Power		\$10,830		\$10,830
Admin. & General		31,695		31,695
Maintenance & Testing		9,577		9,577
Depreciation	d	3,483		3,483
Property Taxes		2,397	161	2,558
Other taxes		0		0
Income Taxes S-Corp	f	1,227	914	2,141
Total Operating Expense		\$57,983	\$1,075	\$60,284
Operating Income	a	\$9,743		\$7,441
Loan Surcharge	b	\$0		12,107
Interest Expense	c	4,845		4,845
Net Income		\$4,898		\$14,704

Principal Repayment	e	4,349		4,349
Reserve/Replacement Deposit (e)		1,839		1,839

<sup>1</sup> TIER (Times Interest Earned Ratio)  
[(a) + (b) + (f)] ÷ (c) 2.26 4.48

<sup>2</sup> DSC (Debt Service Coverage)  
[(a) + (b) + (d) + (f)] ÷ [(c) + (e)] 1.57 2.74

<sup>3</sup> CCR (Cash Coverage Ratio)  
[(a) + (b) + (d) + (f)] ÷ (c) 2.98 5.20

<sup>4</sup> Operating Margin  
[(a) + (b)] ÷ [(b) + (g)] 14.39% 24.49%

#### CAPITAL STRUCTURE

Short-term Debt	\$4,349	2.4%	\$4,349	2.4%
Long-term Debt	\$120,651	67.9%	\$ 120,651	67.9%
Common Equity	\$52,588	29.6%	\$52,588	29.6%
Total Capital	\$177,588	100.0%	\$177,588	100.0%

<sup>1</sup> The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

<sup>2</sup> The Debt Service Coverage Ratio represents the ratio of cash available for debt servicing to interest and principal.

<sup>3</sup> The Cash Coverage Ratio represents the amount of cash available to pay interest expense

<sup>4</sup> Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

Decision No. \_\_\_\_\_

Holiday Enterprises, Inc. dba Holiday Water Company  
Docket Nos. W-01896A-13-0238 & W-01896A-13-0239  
Surcharge Implementation

Surcharge Schedule MJR -2

### TERMS OF PROPOSED WIFA LOAN

#### Terms and Conditions

Loan Amount	\$125,000
Term (No. of Years)	20.00
Combined Interest & Fee Rate	
Interest Rate Index	5.25%
Subsidy Rate Index	75.00%
Combined Interest & Fee Rate	3.94%
Coverage Requirement	20.00%
Debt Service Reserve Requirement	\$9,193.47
Number of Years Debt Service Reserve Funded	5

#### Monthly Fixed payment to WIFA

##### Years 1 through 5

Monthly Fixed Payments to WIFA	\$766.12
Monthly Debt Service Reserve Deposit	\$153.22
Monthly Replacement Fund Deposit	\$0.00
Total Monthly Fixed Payment	\$919.35

##### Years 6 through 20

Monthly Fixed Payments to WIFA	\$766.12
Monthly Debt Service Reserve Deposit	0.00
Monthly Replacement Fund Deposit	\$ 153.22
Total Monthly Fixed Payment	\$919.35

#### Annual Fiscal Impact

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$9,193.47	\$1,838.69	\$0.00	\$11,032.16
2	9,193.47	1,838.69	0.00	11,032.16
3	9,193.47	1,838.69	0.00	11,032.16
4	9,193.47	1,838.69	0.00	11,032.16
5	9,193.47	1,838.69	0.00	11,032.16
6	9,193.47	0.00	1,838.69	11,032.16
7	9,193.47	0.00	1,838.69	11,032.16
8	9,193.47	0.00	1,838.69	11,032.16
9	9,193.47	0.00	1,838.69	11,032.16
10	9,193.47	0.00	1,838.69	11,032.16
11	9,193.47	0.00	1,838.69	11,032.16
12	9,193.47	0.00	1,838.69	11,032.16
13	9,193.47	0.00	1,838.69	11,032.16
14	9,193.47	0.00	1,838.69	11,032.16
15	9,193.47	0.00	1,838.69	11,032.16
16	9,193.47	0.00	1,838.69	11,032.16
17	9,193.47	0.00	1,838.69	11,032.16
18	9,193.47	0.00	1,838.69	11,032.16
19	9,193.47	0.00	1,838.69	11,032.16
20	9,193.47	0.00	1,838.69	11,032.16
21	0.00	0.00	0.00	0.00
22	0.00	0.00	0.00	0.00
23	0.00	0.00	0.00	0.00
24	0.00	0.00	0.00	0.00
25	0.00	0.00	0.00	0.00
26	0.00	0.00	0.00	0.00
27	0.00	0.00	0.00	0.00
28	0.00	0.00	0.00	0.00
29	0.00	0.00	0.00	0.00
30	0.00	0.00	0.00	0.00
	\$183,869.36	\$9,193.47	\$27,580.40	\$220,643.23

Decision No. \_\_\_\_\_

Holiday Enterprises, Inc. dba Holiday Water Company

Surcharge Schedule MJR-3

Docket Nos. W-01896A W-01896A-13-0238 &amp; W-01896A-13-0239

Page 1 of 1

Surcharge Implementation**CASH FLOW ANALYSIS**

Line No.		Staff Recommended W/O Proposed Loan	Pro Forma With Proposed Loan and Surcharge
<b>Cash Inflows</b>			
1	461 Metered Water Revenue	\$67,004	\$67,004
2	460 Unmetered Water Revenue	\$0	0
3	474 Other Water Revenues	\$722	722
4	Revenue - Surcharge for 1.95 DSC (\$12,000 Cash Flow)	0	\$ 12,107
5	Total Revenue	\$67,726	\$79,833
<b>Cash Outflows</b>			
6	601 Salaries and Wages	\$0	\$0
7	610 Purchased Water	1,000	1,000
8	615 Purchased Power	9,830	9,830
9	618 Chemicals	0	0
10	620 Repairs and Maintenance	5,188	5,188
11	621 Office Supplies & Expense	2,620	2,620
12	630 Outside Services	24,045	24,045
13	635 Water Testing	1,913	1,913
14	641 Rents	3,552	3,552
15	650 Transportation Expenses	2,476	2,476
16	657 Insurance - General Liability	0	0
17	659 Insurance - Health and Life	0	0
18	666 Rate Case Expense	333	333
19	675 Miscellaneous Expense	1,145	1,145
20	403 Depreciation Expense	3,483	3,483
21	408 Taxes Other Than Income	0	0
22	408.11 Property Taxes	2,397	2,558
23	409 Income Tax	1,227	2,141
24	Total Expenses	\$59,209	\$60,284
25			
26	Operating Income	\$8,516	\$19,548
27			
28	Plus: Depreciation Expense	3,484	3,484
29	Less: Loan Payment Interest	0	4,845
30	Less: Loan Payment Principal	0	4,349
31	Cash Flow from Operations before WIFA Reserve	\$12,000	\$13,839
32			
33	WIFA Reserve (20% of Principal and Interest)	0	1,839
34	Cash Flow from Operations after WIFA Reserve	\$12,000	\$12,000
35			
36	Operating Income	\$8,516	\$19,548
37	Less WIFA Loan Interest	0	(4,845)
38	Net Income	\$ 8,516	\$14,704
39			
40	Rate of Return on Rate Base	19.64%	45.08%
41	Operating Margin	12.57%	24.49%
42	Operating Margin after WIFA Interest	12.57%	18.42%

Decision No. \_\_\_\_\_

Holiday Enterprises, Inc. dba Holiday Water Company  
Docket Nos. W-01896A-13-0238 & W-01896A-13-0239  
Surcharge Implementation

Surcharge Schedule MJR-4

### CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

Infrastructure Surcharge Based on AWWA Meter Multiplier

Additional Revenue Required for:	Surcharge	Incremental Taxes	
Debt Service:	2.74		
Cash Flow:	\$ 12,000	\$ 11,032	\$ 1,075
			\$ 12,107
Total Equivalent Annual Bills			1,876
5/8"x 3/4" Meter Surcharge Amount	\$12,107 / x 1.0 =		\$ 6.45
3/4" Meter Surcharge Amount	\$12,107 / x 1.5 =		\$ 9.68
1" Meter Surcharge Amount	\$12,107 / x 2.5 =		\$ 16.13
1 1/2" Meter Surcharge Amount	\$12,107 / x 5.0 =		\$ 32.27
2" Meter Surcharge Amount	\$12,107 / x 8.0 =		\$ 51.63
3" Meter Surcharge Amount	\$12,107 / x 16.0 =		\$ 103.26
4" Meter Surcharge Amount	\$12,107 / x 25.0 =		\$ 161.34
6" Meter Surcharge Amount	\$12,107 / x 50.0 =		\$ 322.68

Meter Size	Number of Customers	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	151	1	151	1,816	\$ 6.45	\$6.45	\$ 976
3/4" Meter	-	1.5	-	-	9.68	\$ 116.17	\$ -
1" Meter	2	2.5	5	60	16.13	\$ 193.61	\$ 387
1 1/2" Meter	-	5	-	-	32.27	\$ 387.22	\$ -
2" Meter	-	8	-	-	51.63	\$ 619.55	\$ -
3" Meter	-	16	-	-	103.26	\$ 1,239.10	\$ -
4" Meter	-	25	-	-	161.34	\$ 1,936.09	\$ -
6" Meter	-	50	-	-	322.68	\$ 3,872.19	\$ -
TOTAL	153		156	1,876			\$ 1,363

Decision No. \_\_\_\_\_

Holiday Enterprises, Inc. dba Holiday Water Company  
W-01896A-13-0238 & W-01896A-13-0239  
December 31, 2012

Surcharge Schedule MJR-5

**Typical Bill Analysis (with Staff Surcharge)**

General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,100	\$ 30.23	\$ 49.88	\$ 19.65	65.00%
Median Usage	4,500	23.46	38.18	\$ 14.72	62.72%

**Staff Recommended (with Surcharge)**

Average Usage	8,100	\$ 30.23	\$ 37.43	\$ 7.20	23.82%
Median Usage	4,500	23.46	29.33	\$ 5.87	25.02%

**Present & Proposed Rates**  
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 15.00	\$ 27.00	80.00%	\$ 21.45	43.02%
1,000	16.88	29.10	72.39%	22.95	35.98%
2,000	18.76	31.20	66.31%	24.45	30.35%
3,000	20.64	33.30	61.34%	25.95	25.74%
4,000	22.52	36.55	62.30%	28.20	25.24%
5,000	24.40	39.80	63.11%	30.45	24.81%
6,000	26.28	43.05	63.81%	32.70	24.44%
7,000	28.16	46.30	64.42%	34.95	24.13%
8,000	30.04	49.55	64.95%	37.20	23.85%
9,000	31.92	52.80	65.41%	39.45	23.60%
10,000	33.80	56.05	65.83%	41.70	23.38%
11,000	35.68	60.25	68.86%	45.70	28.09%
12,000	37.56	64.45	71.59%	49.70	32.33%
13,000	39.44	68.65	74.06%	53.70	36.17%
14,000	41.32	72.85	76.31%	57.70	39.65%
15,000	43.20	77.05	78.36%	61.70	42.83%
16,000	45.08	81.25	80.24%	65.70	45.75%
17,000	46.96	85.45	81.96%	69.70	48.43%
18,000	48.84	89.65	83.56%	73.70	50.91%
19,000	50.72	93.85	85.04%	77.70	53.20%
20,000	52.60	98.05	86.41%	81.70	55.33%
25,000	62.00	119.05	92.02%	101.70	64.04%
30,000	71.40	140.05	96.15%	121.70	70.45%
35,000	80.80	161.05	99.32%	141.70	75.38%
40,000	90.20	182.05	101.83%	161.70	79.27%
45,000	99.60	203.05	103.87%	181.70	82.43%
50,000	109.00	224.05	105.55%	201.70	85.05%
75,000	156.00	329.05	110.93%	301.70	93.40%
100,000	203.00	434.05	113.82%	401.70	97.88%

Decision No. \_\_\_\_\_